414 Nicollet Mall
Minneapolis, MN 55401

January 26, 2016

Daniel P. Wolf **—Via Electronic Filing—**
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: REPLY COMMENTS
2016 CAPITAL STRUCTURE
DOCKET NO. E,G002/S-15-948

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission these Reply Comments in response to the December 30, 2015 Comments of the Minnesota Department of Commerce in the above-referenced docket.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list.

Please contact Jody Londo at (612) 330-5601 or jody.l.londo@xcelenergy.com or Mary Schell at (612) 215-5362 or mary.p. schell@xcelenergy.com if you have any questions regarding this filing.

Sincerely,

/s/

BRIAN J. VAN ABEL
VICE PRESIDENT AND TREASURER

Enclosures

cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipshultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF CAPITAL STRUCTURE FOR ISSUANCE OF LONG-TERM AND SHORT-TERM SECURITIES FOR 2016

DOCKET NO. E,G002/S-15-948

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission these Reply Comments in response to the December 30, 2015 Comments of the Minnesota Department of Commerce in the above-referenced docket.

We appreciate the Department's thorough review of our 2016 Capital Structure Petition and support for our proposed capital structure; common equity ratio; short-term debt cap; total capitalization; flexibility to issue securities; and flexibility to use risk management instruments. We understand that the Department will provide its final recommendations to the Commission in Supplemental Comments once it has had an opportunity to review our Reply.

The Commission's Rules exist to help ensure utilities are acting in the best interests of their customers. Minn. R. 7825.1400(O) states a preference for competitive bidding for securities issuances through means such as sealed bids, and was likely implemented at a time when the financial markets operated in that manner. The financial markets have since evolved and now operate through use of Underwriters to harness competition among investors to achieve final price terms that are reflective of actual market conditions at the time of sale.

We provided a general description of *competitive bidding* compared to *negotiated placement* methods of issuing securities in Attachment L to our Petition and responded to several related Information Requests from the Department – some of which were included with the Department's Comments. Upon review of what we previously provided, we recognize that the information does not fully explain how the corporate bond market currently functions and the market standard process for issuing securities.

We employ standard practices for corporate bond issuances to achieve prevailing market rates for our customers through competitive processes. As we demonstrate in this Reply, the interrelated nature of our multi-year credit facility with our bond issuance practices is necessary and beneficial for our customers. We actively manage our costs and our banks' performance – and maintain banks in our credit facility that consistently deliver value for the Company and our customers. Requiring the Company to implement non-market standard practices that no other investor-owned utility or large corporation employs, such as a traditional Competitive Bidding process for bond issuances, could cause banks to reduce their capital commitments to the Company or withdraw from the credit facility. This shrinkage of credit support would increase our cost of credit and impact our daily operations – all to the detriment of our financial integrity, and ultimately the cost to our customers.

In this Reply, we respond to the Department's Comments and request for additional information regarding our multi-year credit facility, the bond issuance process we employ, NSP Nuclear Corporation, and the change in timing for a large capital project from 2016 to 2018. We also offer to work with the Department to identify additional information we could provide after future bond issuances to increase transparency into the market performance of our issuances. We also offer to meet with the Department and/or Commission periodically – and/or after a specific issuance to provide even greater detail beyond that contained in a compliance filing. We respectfully request the Commission approve our Petition as supplemented by this Reply.

REPLY

A. Bond Issuances

In this section, we more fully explain the current Negotiated Placement corporate bond issuance process we and other investor-owned utilities and other corporations employ. We demonstrate that despite its nomenclature, Negotiated Placement best harnesses competitive forces in the financial markets, which delivers cost benefits to our customers. In Part C below, we outline how conditions have evolved since the late 1990s such that the Negotiated Placement method of issuing securities has become the market standard.

1. Overview

The purpose of issuing securities is to raise long-term capital that is used to finance our investment in long-term utility assets. The Company finances in a manner that supports its financial integrity and credit ratings with the objective of achieving favorable financing costs that are ultimately passed on to our customers. The key drivers that affect the timing and amount of bond issuance include replacement of maturing long-term debt or to "term out" short-term debt once it stabilizes at a level of $250 million or greater – a level that lends itself to most favorable treatment in the financial markets.

Bonds that have principal amounts of $250 million and above are included in the Barclay's Bond Index, which establishes the bond as being more liquid and therefore trades more readily in the secondary market. The more liquid the bond, the more desirable it is to investors; greater investor interest in our bonds translates to more favorable pricing for the Company and lower costs for our customers.

When we determine we need to issue a bond, we initiate a process to raise the long-term capital at the lowest cost for our customers, which we discuss below.

2. Harnessing Market Forces to our Customers' Benefit

There are two primary methods to issue corporate securities – Negotiated Placement and Competitive Bidding. Competitive Bidding is rarely employed by investor-owned corporations any longer as a form of securities issuance. More common prior to the late 1990s, Competitive Bidding involved a limited set of banks competing with each other to purchase the bond issuance from the corporation – and in doing so, taking on all of the risk of finding investors to sell to within the terms it paid the corporation. Thus, banks would build a "risk premium" into their bids to account for the significant level of risk they were taking by purchasing the bond directly.

Negotiated Placement has replaced Competitive Bidding as the market standard. Under this method, the issuing company selects a few banks to serve as underwriters of a bond offering with the goal of creating competition among investors. The company and selected banks convene several weeks in advance of the planned issuance to begin preparing the financial and legal documents, monitor market conditions, analyze other utility bond offerings in the market, and discuss potential structures and timing to maximize investor interest to achieve a favorable execution and pricing outcome. When the bond is offered into the market, investors compete with one another for the opportunity to purchase a portion of the bond, harnessing the competitive forces of the supply and demand within the market. The pre-work with the Underwriters on the bond structure and timing combined with the competition created at the investor level drives the pricing of the bond to the lowest all-in cost while maintaining a strong execution.

Therefore, Negotiated Placement is market-driven, as it facilitates competition among investors, which establishes the price for the purchase of bonds being offered in the market. It is the market standard – to our knowledge, all of the transactions priced in the U.S. investment grade market since 2012 (more than 3,500 transactions) were conducted as a negotiated placement issuance.[1]

3. Negotiated Placement – Selecting the Underwriting Group

In a Negotiated Placement, the corporation selects an underwriting group (generally three to five banks) that has experience and expertise for the size and type of offering, and knowledge about the industry and its investors. Having a pool of banks that offer differing expertise and capabilities with which the corporation has built strong relationships is important to a successful and cost-effective offering. Also consistent with market practices, we select the Underwriters from the bank group that support our Credit Facility.

We currently have 20 banks in our Credit Facility that provide lending support and expertise for other financial services. There is no formal written policy or language in our "Amended and Restated Credit Agreement" for selecting Underwriters from the group of banks that support our Credit Agreement. There is, however, an understanding between corporations and the banks who offer below-market-priced credit facilities that the banks will have the first opportunity to provide the corporation with additional financial services including commercial paper dealer positions and underwriting opportunities.[2] We discuss the need for our Credit Facility and the benefits of this broad financial services concept further in Part C below.

In selecting the underwriting group, we ensure the group has the necessary expertise, experience and past performance. It is important that we have the right mix of underwriting capabilities for a particular issuance that will deliver the most cost-effective transaction and long-term benefits for our customers. Therefore, depending on the issuance, a specific consideration may be the bank's reach with various investors such as international, regional, institutional or retail. We also consider the breadth of financial services the bank is providing the Company – balancing opportunities for the qualified banks to provide financial services to the Company as equitably as possible.

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[1] This included 377 issuances by investor-owned utilities.

[2] Although unlikely, to the extent we have a unique financing requirement that none of the 20 banks supporting NSPM's credit agreement could undertake, we would look to banks outside of the credit agreement for the specific expertise required.

The number of Underwriters for a particular bond issuance is determined by the size of the bond. The underwriting fees are market standard based on the term of the bond, and do not differentiate between banks.[3] We need the right mix of banks to achieve our objective of a broad investor base – but not so many that the process becomes unwieldy. We often select a pool of three to five banks, with one of the selected banks taking the lead.

4. Bond Issuance Process

Like all corporate bond issuers, we work with the selected Underwriter(s) beginning several weeks in advance of the offering. During this period, the Underwriters provide advice on market conditions, potential investor demand based on prices, interest rates, credit risk levels, timing of the issue, expertise and market knowledge of the issuer's existing securities and other recent offerings. Based on these discussions, the structure and timing of the bond offering are determined to achieve the best outcome in current market conditions.

On the day of the planned issuance, before the U.S. financial markets open, the banks and Company have a conference call to make a go/no-go decision. This decision is based on that day's market conditions, taking into consideration what happened overnight in international markets – and similar insights as have been gleaned through the pre-issuance period.

When we decide to "go," the deal is announced/offered into the market with the initial established terms, which are called "Initial Price Thoughts" or IPT. Throughout the morning, we are in frequent contact with our underwriters to assess the "order book," which is the sum of committed investments at the IPT. Our bonds are nearly always significantly oversubscribed, which allows us to tighten the credit spread to the benefit of our customers. If at the initial order book assessment we are oversubscribed, we work with our Underwriters to tighten the spread (i.e., essentially achieving a lower cost for our customers) to determine the impact on the volume and quality of interested investors – and reassess the order book in another hour or so. We continue this process until we believe we have pushed down the spread as much as possible – at which point, we finalize pricing and the order book is allocated to investors.

5. Assessing Bank Performance

We monitor the performance of our banks generally, as well as specific to a securities issuance. While there is an abundance of information available, the banks' performance on a bond issuance is most visible by comparing the credit spread of the

[3] For example, 65 basis points (bps) for a 10-year bond; 87.5 bps for a 30-year bond.

final deal to other deals of like quality and terms. A credit spread is the difference in yield between two bonds of similar maturity but different credit quality; i.e., the Treasury bond yield with the same maturity of the bond we are issuing to the final interest rate of our bond. For example, if a 10-year Treasury bond is trading at a yield of 2 percent and the Company issues a bond at 3 percent, the credit spread at issuance is 100 basis point (bps) spread over the Treasury.

A narrower credit spread means the bond has a lower interest rate, and in turn a lower cost to the Company and its customers. The final price of the bond factors in the corporation's credit rating and represents the market's assessment of the Company's expected performance. A strong credit rating and a favorable investor perception of the Company translates to strong investor interest in our issuances, which helps to lower costs for our customers.

After the issuance, we assess the performance of our specific issuance – and in doing so, assess the performance of our Underwriters. For example, we watch the markets the next day to see whether, and if so, how our bonds are trading. If they are trading near the issuance price, we have confidence that the final pricing of our transaction achieved market parity. We additionally receive market information from the Underwriters that allows us to assess the performance of our issuance on the day of issuance.

We provide as Attachment A to this Reply a summary of the information we received from our Underwriters for the August 4, 2015 NSPM 5-year and 30-year bond issuances. The transaction summary outlines the key terms, investor allocation and order book throughout the day, and provides other contextual information that aids our evaluation of issuance performance. Some of this contextual information is Equity Indices and US Treasury Yields and Credit Spreads for the 60-day period leading up to the issuance, near-term Economic Releases, and other transactions that priced the same day. With this information, we can assess whether our bond performed as would have been expected, given the market conditions – and how other bonds performed that were sold the same day. Our primary performance indicator is the credit spread of our issuance to comparable issuances.

We also compare ourselves to other investor-owned utility issuances. We provide as Attachment B to this Reply a summary of utility deals over a four-month period that includes our August 2015 NSPM issuance. This type of assessment allows us to compare the performance of our bond issuance with comparable utility issuances. The primary indicator in comparing the performance of our issuance with that of other corporations or utilities is the credit spread – taking into consideration key factors such as the corporation's credit rating, the term of the bond, and whether it is unsecured or a first mortgage bond. The information we provide as Attachments A and B shows that the credit spread we achieved on the NSPM August 4, 2015 bond issuance as directed by our selected Underwriters resulted in a cost-effective transaction for our customers.

Our banks, as part of our ongoing relationship, also provide us market information on a periodic basis that further aids our ability to assess bank performance. For example, if we spot a bond offering that did not price comparably, we inquire about that issuance and the circumstances. Depending on the circumstances, issuances that did not price well in the market can be a reflection of the Underwriter's performance. These tools provide the Company an additional way to hold our banks accountable – and to the extent we are not doing business with those banks currently, it facilitates an independent assessment of their performance that we would factor into our future decision-making.

We believe some of the tools we currently use to measure performance could help provide increased transparency into our process for the Commission. We already submit a compliance filing within 20 days of a non-recurring issuance containing the following information, pursuant to the Ordering Paragraph No. 4 of the Commission's May 12, 2009 Order in Docket No. E,G999/CI-08-1416 and Ordering Paragraph No. 11 of its January 9, 2015 Order in Docket No. E,G002/S-14-922:

1) The type of security issued;
2) The total amount issued;
3) The purpose of the issuance;
4) The issuance costs associated with the security; and
5) The total cost of the security issuance, including details such as interest rate or price per share of common equity issued.

We would need more time to be able to provide a market retrospective on the issuance. Therefore, we propose to work with the Department to identify specific information about each bond issuance that we would provide in a compliance filing – with the goal of increasing the Commission's transparency into the effectiveness of our debt issuances. We also reiterate our offer to meet with the Department and/or Commission after a bond issuance to walk through the issuance steps and results.

B. Negotiated Placement is the Market Standard

Financial markets have become more globalized, yet transparent, due to the broad dissemination of market information facilitated by technological advancements. The change in the financial markets that has resulted in the current Negotiated Placement method being the standard and most cost-effective way to issue securities began in the late-1990s when the banking industry changed; the requirement to separate lending banks and investment banks was lifted, and banks became multi-service oriented. Technology and access to market information also improved, giving the bond issuer more direct intelligence around capital markets data.

Also contributing to this change in the market standard, the Federal Energy Regulatory Committee (FERC) and Securities and Exchange Commission adjusted or rescinded their rules to allow public utilities to issue securities either by competitive or negotiated method – with FERC amending its policies in 1995[4] and the SEC rescinding its Rule 50 that required Competitive Bidding in 1994.[5] Specifically, the SEC found that Rule 50 was "no longer necessary in view of the extensive reporting requirements imposed by the Act [Public Utility Holding Act of 1935] and the other federal securities laws."[6]

We note that the California Public Utilities Commission examined this issue in a recent rulemaking proceeding, stemming from the number of exceptions utilities were requesting from the then-rule that was prescriptive about the circumstances in which Competitive Bidding was to be used. The rulemaking proceeding concluded in changes that afford utilities flexibility to choose a competitive or negotiated process. Public utility long-term debt issues shall be conducted in a prudent manner consistent with market standards that encompass competition and transparency with the goal – that the utility's bidding choice results in the lowest cost of debt to ratepayers, which is assessed as part of the utilities overall cost of debt in a ratemaking proceeding.[7]

In this circumstance, corporations select banks with whom they have relationships and expertise in their industry to participate in a bond offering, generally three to four weeks in advance of the offering. Negotiated Placement in today's market is standard and competitive by definition; it reflects supply and demand, directly engages investors/market participants, and establishes the price at which buyers will purchase and issuers will sell securities.

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[4] 18 CFR Part 34.2 [Pursuant to Federal Energy Regulatory Commission Order 575, 60 FR 4853 (January 25, 1995)].

[5] Rule 50 required Competitive Bidding for the issuance of securities by a registered holding company or its subsidiary. *See* Public Utility Holding Company Act Rules, File No. S7-35-92, Securities and Exchange Commission, Release No. 35-25668; 17 CFR Part 250.

[6] Public Utility Holding Company Act rules, SEC Release No. 35-26031; 1994 SEC LEXIS 1176 at * 20 (April 20, 1994).

[7] *See* Rulemaking 11-03-007, which was initiated due to the number of requests for a variance from its rules that had a preference for Competitive Bidding that it was receiving. On the issue of Competitive vs. Negotiated Placement, the CPUC amended its rules to provide utilities with the freedom to choose whether to use competitive or negotiated bidding – while protecting customers by requiring that the utility's bidding choice results in the lowest cost of debt to ratepayers. In adopting this change, the Commission observed that the rule they are adopting will encourage the development of a broader pool of underwriters and investors that will be reflective of the population served by the regulated utilities and the financial market as a whole. *See* Decision 12-06-015 at pages 13-14 (June 7, 2012).

Conversely, Competitive Bidding, where corporations invited a number of banks to bid on the purchase of a bond merely facilitates competition among a few banks. Unlike Negotiated Placement, it does not harness competition among actual investors in the market to achieve market parity, and is therefore not representative of the inherent competitive financial market. Further, because the banks incur substantial risk in purchasing the bond without knowing investor demand on the day of sale, they include a corresponding risk premium in their bids. This drives up the cost of the issuance – and the resulting cost to our customers.

Further, in the Competitive Bidding process, a company can lose control over the ultimate holders of our bonds, as the banks are incented to sell the bonds as quickly as possible to restore their large capital outlay. We believe our customers benefit from investors who hold our bonds for long periods of time, creating stability. Stability with our bonds contributes to improved market performance of our future bond issuances, which means more cost-effective financing terms for our customers. Finally, because Competitive Bidding is not the market standard, it could be difficult and inefficient to implement a process that would operate outside of market norms.

C. Multi-Year Credit Facility

We maintain a $500 million multi-year credit facility with 20 banks.[8] In order to issue commercial paper for short-term funding needs – our lowest cost of short-term financing – we must maintain revolving credit facilities at least equal to the amount of our commercial paper borrowing limits, and cannot issue commercial paper in an aggregate amount exceeding available capacity under these credit facilities. This credit agreement also serves as liquidity back-up for letters of credit that the Company must issue in certain operational circumstances.[9]

Importantly, the Agreement also guarantees the Company has access to $500 million, should it be unable to otherwise access the financial markets to fund its daily operations. We only draw on the facility in extreme circumstances, as the facility represents the highest short-term debt cost financing immediately available to the Company. There have been only a few of these extreme circumstances in the recent past, most notably the market close on and after September 11, 2001 and the economic collapse in 2008. The Company required access to short-term funds to re-pay its maturing commercial paper, and the credit facility is the mechanism to

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[8] Our most recent Credit Agreement was executed October 14, 2014, which was an amendment to our July 27, 2012 Agreement. *See* Docket Nos. E,G999/CI-08-1416 and E,G002/S-13-983 (October 22, 2014).

[9] For example, when the Company completes installation or modification of its facilities, it will be required to restore the landscape to its original condition. In this circumstance, we may be required to provide the property owner a letter of credit guaranteeing performance of landscape restoration. In the event the Company does not meet the requirement, the Owner can present the letter of credit for payment.

provide essential liquidity when there are no other options. It is this liquidity function that is critical to the Company and viewed as so by the credit rating agencies. Standard & Poor's states in a commentary regarding liquidity that:[10]

> *Liquidity is an important component of financial risk across the entire rating spectrum. Unlike most other rating factors within an issuer's risk profile, a lack of liquidity could precipitate the default of an otherwise healthy entity. Accordingly, liquidity is an independent characteristic of a company, measured on an absolute basis, and the assessment is not relative to industry peers or other companies in the same rating category.*

The banks that participate in our credit facility make a substantial commitment to the Company by holding capital on their balance sheets for us to draw upon at a moment's notice. While drawing on the facility represents our highest short-term debt financing cost, the banks underprice the cost of maintaining the facility itself, which is a market practice. The banks do this with the unwritten expectation that the corporation will use the banks for other services from which they will earn associated, market-based fees. One of these other services is the Underwriting for bond issuances that we discussed above.

We have developed long-term, constructive relationships with these banks – all of which have valuable expertise and experience that benefits the Company and our customers. As the banks evaluate their ongoing participation in the credit facility, they evaluate the entirety of their financial services relationship with the corporation. If they have not earned sufficient income – or do not reasonably expect to earn sufficient income based on history – to maintain the significant capital commitment required by the credit facility, they may withdraw from the facility. Altering our process for bond issuances to a non-market standard will impact the numbers and quality of banks willing to participate in our credit facility, to the detriment of our financial health. Moreover, the credit rating agencies understand the importance of constructive, long-term banking relationships and assess a company's banking relationships as part of the overall assessment of a company's liquidity.

It is therefore in the Company's best interests – and essential to our daily operations and overall financial health – to afford opportunities to these banks to provide additional services that increase the value of the relationship for the bank. Below we discuss how we currently fund our short-term capital needs, and how these elements of our short- and long-term debt management come together to our customers' benefit.

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[10] Standard and Poor's Ratings Services, *Methodology and Assumptions: Liquidity Descriptors for Global Corporate Issuers*, December 16, 2014.

D. Our Debt Management Practices are Cost-Effective

As we have discussed, our Multi-Year Credit Facility, short-term commercial paper, and long-term bond issuances are necessarily interrelated. Without the credit facility, we would be unable to access the commercial paper market, which is the lowest-cost debt available to fund our short-term operational needs. If the credit facility banks do not have opportunities to earn fees from providing the Company additional financial services such as Underwriting, they will eventually drop out of the credit facility. While on the surface this interrelated financial service model may appear to favor the banks, it actually allows us to be more effective in the financial markets, which benefits our customers through lower costs of debt as we summarize below:

The Credit Facility is an Essential Financial Base. As we have described above, the credit facility is essential to funding our ongoing operations in all market conditions, and our ability to issue commercial paper – our lowest-cost access to short-term capital that provides value for our customers.

Fees for Other Financial Services are Market Standard. The Company purchases additional financial services at market standard rates from the banks that participate in the credit facility. Because the services are priced at market standard, the cost to our customers is no different than it would be if we were to use banks outside of the credit facility.

The Bank Relationships Provide Valuable Market Intelligence. Our customers benefit from the relationship that develops between the Company and our credit facility banks over time. Our banks invest in knowing our industry and knowing the Company. This allows them to provide more valuable market insights and intelligence –specifically strategic advice regarding deal structure and timing of our bond offerings. This advice and information helps to guide our market interactions, which benefits our customers through lower costs.

1. *We Consistently Evaluate Performance with Objective Tools*

As we outlined in Part A.5 above, we use several tools to monitor the performance of our banks on our and other corporate bond issuances, which informs our decisions to engage them on future deals. With this Reply, we also provide post-bond issuance information from our August 4, 2015 bond issuance as samples of the type of information that we could provide in a compliance filing that would increase the transparency of our future issuances. As we have stated, we would like to work with the Department to determine the information that will achieve that objective.

As we have demonstrated, the interrelated nature of the credit facility with our other debt management practices is necessary and beneficial for our customers. We actively manage our costs and monitor our banks' performance. If a bank does not perform as well as expected for the Company on a deal, the performance is discussed with the bank, and it may affect amounts and frequency of participation in future deals. Eventually, this could cause the banks to withdraw from the credit facility. However, we only want banks in our credit facility who will deliver strong results for the Company and our customers, so this is of little consequence. Our greater concern is losing the banks in our credit facility who consistently deliver valuable market expertise and experience. Our credit facility is key to our financial integrity and liquidity, and it is imperative to retain high-quality banks to maintain our credit facility and access the commercial paper markets to fund our short-term operations.

Requiring the Company to implement a non-market standard practice such as traditional Competitive Bidding process for bond issuances would cause banks to withdraw from the credit facility to the detriment of our financial health and ultimately, our customers.

E. Other Requested Information

1. NSP Nuclear Corporation

The Department observed that the NSPM capital structure includes NSP Nuclear Corporation, the holding Company for Nuclear Management Company (NMC), and requested we discuss the purpose that the NSP Nuclear Corporation serves, and why it is structured as a subsidiary rather than similar to other NSPM generation facilities, particularly given the fact that NMC is inactive.

NSP Nuclear Corporation is a Minnesota Corporation formed in November 1999. We incorporated NSP Nuclear Corporation as a wholly-owned subsidiary of NSPM as a risk mitigation mechanism – consistent with well-established corporate management standards. We review the business need for retaining non-active subsidiaries in the normal course of business, and generally retain non-active subsidiaries if they may have liabilities or other outstanding potential claims. We are in the process of assessing whether the time may be appropriate to dissolve this subsidiary.

2. Prairie Island Unit 1 Life Cycle Management Generator Timing

The Department requested we explain the change in timing of the life cycle management generator replacement project at Prairie Island Unit 1. We clarify that Prairie Island Units 1 and 2 each have two large generators – a Steam Generator and a Main Electric Generator. Unit 1's Steam Generator was replaced approximately ten years ago. This project is to replace the Main Electric Generator, which was initially scheduled for fall 2016, but has now been delayed to that Unit's next refueling outage in fall 2018. As explained in the Direct Testimony of Mr. Timothy J. O'Connor in our currently pending rate case in Docket No. E002/GR-15-826, this project was deferred to 2018 to accommodate Company capital budgeting constraints. This resulted in refinement of earlier cost estimates to update scope, schedule and budget from the 2016 timeframe to 2018.

CONCLUSION

We have provided information responsive to the Department's questions. The additional information we provide regarding our debt management practices better explains how our practices provide competitive benefits to our customers, align with standard financial market practices, and benefit our customers. We have also offered to provide additional reporting that would increase the transparency into the effectiveness of our bond issuances. Xcel Energy respectfully requests the Commission approve our Petition as supplemented by this Reply.

January 26, 2016

Northern States Power Company

Northern States Power Company - MN

2.200% First Mortgage Bonds due August 15, 2020
4.000% First Mortgage Bonds due August 15, 2045

Transaction Summary

August 4, 2015

Xcel Energy

Northern States Power Company – MN, $600 Million First Mortgage Bonds Offering

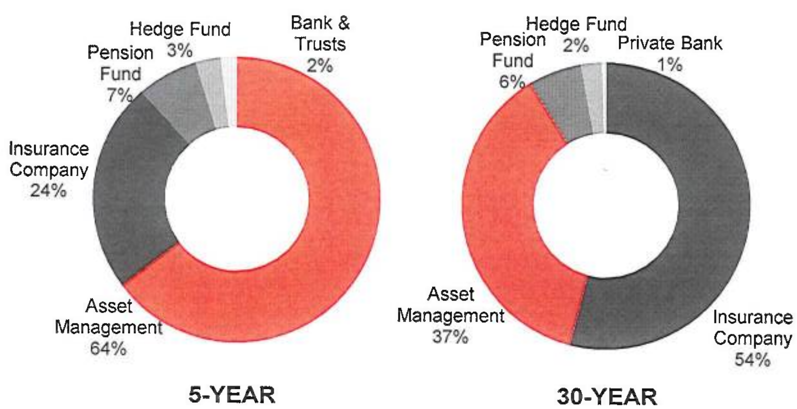
KEY TRANSACTION TERMS

Issuer	Northern States Power Company - MN ("NSP-MN", the "Company" or the "Issuer")	
Ratings	Aa3 / A / A+ (stable / stable / stable)	
Format	SEC Registered	
Size	$600 million	
Maturity	15 August 2020	15 August 2045
Price	99.816	98.367
Coupon	2.200%	4.000%
Yield	2.239%	4.095%
Initial Price Thoughts (IPTs)	T+80-85 bps	T+135 bps area
Guidance	T+70 bps area	T+125 bps area
Reoffer Spread	T+65 bps	T+120 bps
New Issue Concession (NIC)	NA	+7 bps
Final Book Size	$2.1 billion (3.5x oversubscribed)	
Pricing Date	4 August 2015	
MUFG Role	Active Bookrunner	

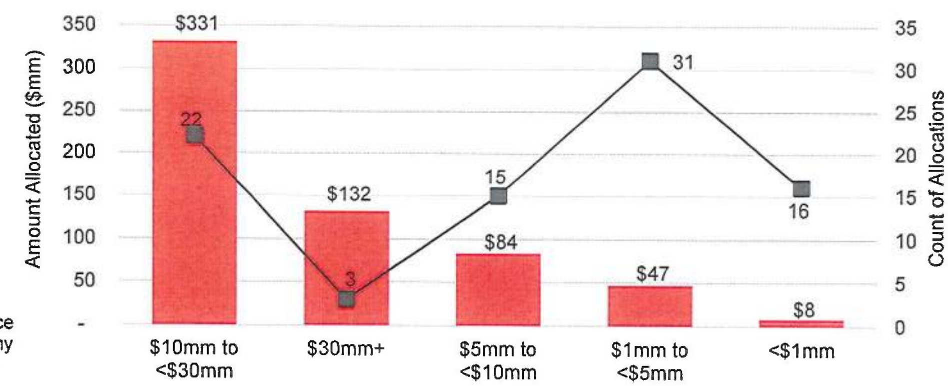
TRANSACTION OVERVIEW

- Despite volatility in the Treasury and equity markets, the IG primary market hit another record month of supply with July chalking up a staggering $128 billion
- The morning of Tuesday, August 4th saw a relatively neutral equity market opening, commodities pushing upward, credit trading in stable fashion and the jumbo $8 billion Celgene transaction from the day prior 2 to 3 bps tighter in the secondary
- In total, four high quality corporate issuers entered the market alongside NSP-MN to take advantage of stable market conditions and rallying Treasuries. NSP-MN was the first Utility to tap the market since June
- NSP-MN whispered its $600 million (will-not-grow) 5-year and 30-year FMB offering with IPTs of T+80-85 bps and T+135 bps area, respectively
- Momentum built swiftly underscoring the pent-up demand for Utility paper and 5 year Utility paper in particular. Extremely high quality in nature and anchored by large chunky orders, the book was oversubscribed by 9:36 AM
- At its peak, the order book reached $3 billion (5x oversubscribed), providing enough pricing leverage to tighten guidance to T+70 bps area and T+125 bps area (+/-5 bps in both cases)
- The new FMBs priced at T+65 bps and T+120 bps, representing a +7 bps NIC on the 30-year, well inside of average corporate NICs of +13 bps throughout the month of July
- The final order book was $2.1 billion (3.5x oversubscribed), evenly split between the two tranches and comprised primarily of asset managers (51%) and insurance companies (39%)
- Both tranches traded 2 bps better on the break

ALLOCATION BY INVESTOR TYPE



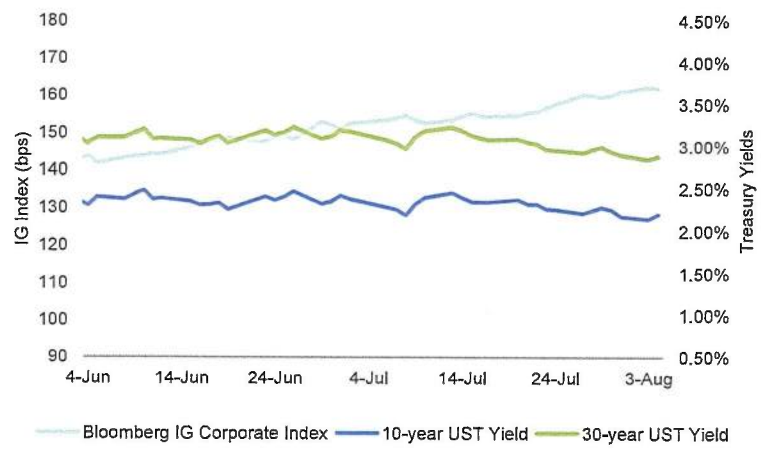
INVESTOR CONCENTRATION



Market Backdrop on August 4, 2015

EQUITY INDICES

U.S. TREASURY YIELDS AND CREDIT SPREADS



ECONOMIC RELEASES

Date	Time	Event	Period	Survey	Actual	Prior	Revised
3-Aug	08:30	Personal Income	Jun	0.3%	0.4%	0.5%	0.4%
3-Aug	08:30	Personal Spending	Jun	0.2%	0.2%	0.9%	0.7%
3-Aug	08:30	Real Personal Spending	Jun	0.0%	0.0%	0.6%	0.4%
3-Aug	08:30	PCE Deflator MoM	Jun	0.2%	0.2%	0.3%	–
3-Aug	08:30	PCE Deflator YoY	Jun	0.2%	0.3%	0.2%	–
3-Aug	08:30	PCE Core MoM	Jun	0.1%	0.1%	0.1%	–
3-Aug	08:30	PCE Core YoY	Jun	1.2%	1.3%	1.2%	1.3%
3-Aug	09:45	Markit US Manufacturing PMI	Jul	53.8	53.8	53.8	–
3-Aug	10:00	Construction Spending MoM	Jun	0.6%	0.1%	0.8%	1.8%
3-Aug	10:00	ISM Manufacturing	Jul	53.5	52.7	53.5	–
3-Aug	10:00	ISM Prices Paid	Jul	49.00	44.00	49.50	–
3-Aug	15:17	Wards Total Vehicle Sales	Jul	17.20M	17.46M	17.11M	–
3-Aug	15:17	Wards Domestic Vehicle Sales	Jul	13.50M	13.92M	13.34M	–
4-Aug	09:45	ISM New York	Jul	–	68.80	63.10	–
4-Aug	10:00	Factory Orders	Jun	1.8%	1.8%	-1.0%	-1.1%
4-Aug	10:00	Factory Orders Ex Trans	Jun	–	0.5%	0.1%	-0.1%
4-Aug	10:00	IBD/TIPP Economic Optimism	Aug	47.8	46.9	48.1	–

Source: Bloomberg,

RELATIVE VALUE

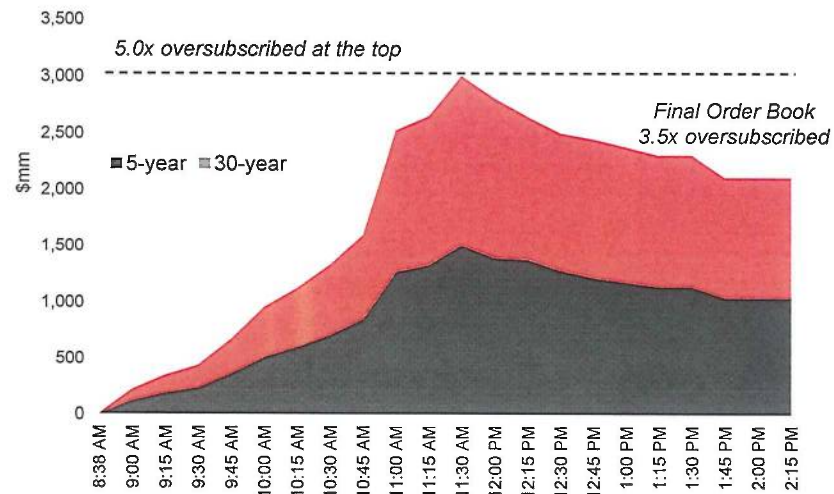
Issuer	Security	Rating	UST+	G-Sprd	$ Px
Northern States Power (MN)	**XEL 4.125% 5/44**	**Aa3 / A**	**113 bps**	**120 bps**	**101.9**
Public Service Co of Colorado	**XEL 2.9% 5/25**	**A1 / A**	**98 bps**	**98 bps**	**98.0**
Public Service Co of Colorado	**XEL 4.3% 3/44**	**A1 / A**	**121 bps**	**129 bps**	**103.4**
Southern California Gas Co	SRE 1.55% 6/18	Aa2 / A+	53 bps	56 bps	100.1
Southern California Gas Co	SRE 3.2% 6/25	Aa2 / A+	90 bps	92 bps	101.2
Duke Energy Carolinas	DUK 3.75% 6/45	Aa2 / A	114 bps	116 bps	95.3
Public Service Electric & Gas	PEG 2% 8/19	Aa3 / A	42 bps	70 bps	100.2
Public Service Electric & Gas	PEG 3% 5/25	Aa3 / A	96 bps	96 bps	99.0
Public Service Electric & Gas	PEG 4.05% 5/45	Aa3 / A	114 bps	118 bps	100.5
DTE Electric Co	DTE 3.375% 3/25	Aa3 / A	95 bps	99 bps	102.1
DTE Electric Co	DTE 3.7% 3/45	Aa3 / A	114 bps	116 bps	94.4
Unilever Capital Corp	UNANA 2.1% 7/20	A1 / A+	61 bps	61 bps	99.8

Execution Summary

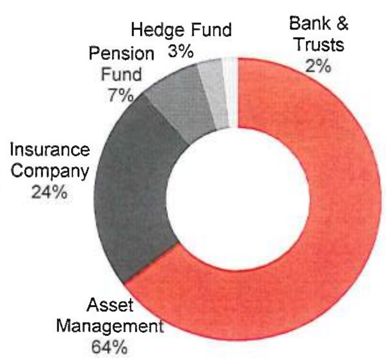
TRANSACTION EXECUTION

8:30 AM ET:	Go / no-go call
8:37 AM ET:	Deal announced; IPTs released at T+80-85 bps / T+135 bps area
11:00 AM ET:	Order book subject
11:36 AM ET:	Guidance released at T+70 area / T+125 area (both +/-5 bps)
12:34 PM ET:	Transaction launched at T+65 bps / T+120 bps
1:45 PM ET:	Order book allocated
2:15 PM ET:	**Pricing call (Final order book of $2.1 billion)**

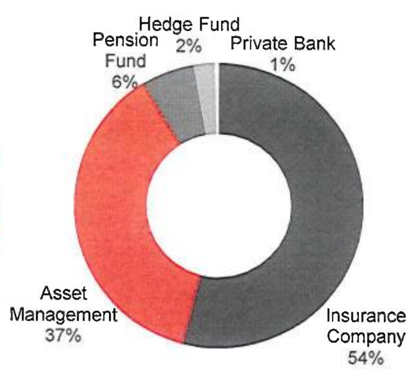
BOOK BUILDING



INVESTOR ALLOCATIONS



5-YEAR



30-YEAR

Investor Type	5-year Allocations	30-year Allocations	Total
Asset Management	$193,975,000	$112,125,000	$306,100,000
Insurance Company	71,500,000	162,700,000	234,200,000
Pension Fund	20,500,000	18,000,000	38,500,000
Hedge Fund	8,500,000	7,000,000	15,500,000
Bank & Trusts	5,250,000	-	5,250,000
Private Bank	275,000	1,550,000	1,825,000
Total	**$300,000,000**	**$301,375,000**	**$601,375,000**

Investor Count	64	50	87
Largest Allocation	$22,000,000	$22,000,000	$44,000,000
Smallest Allocation	$250,000	$500,000	$250,000
Average Allocation	$4,687,500	$6,027,500	$6,912,356

Investment Grade Supply

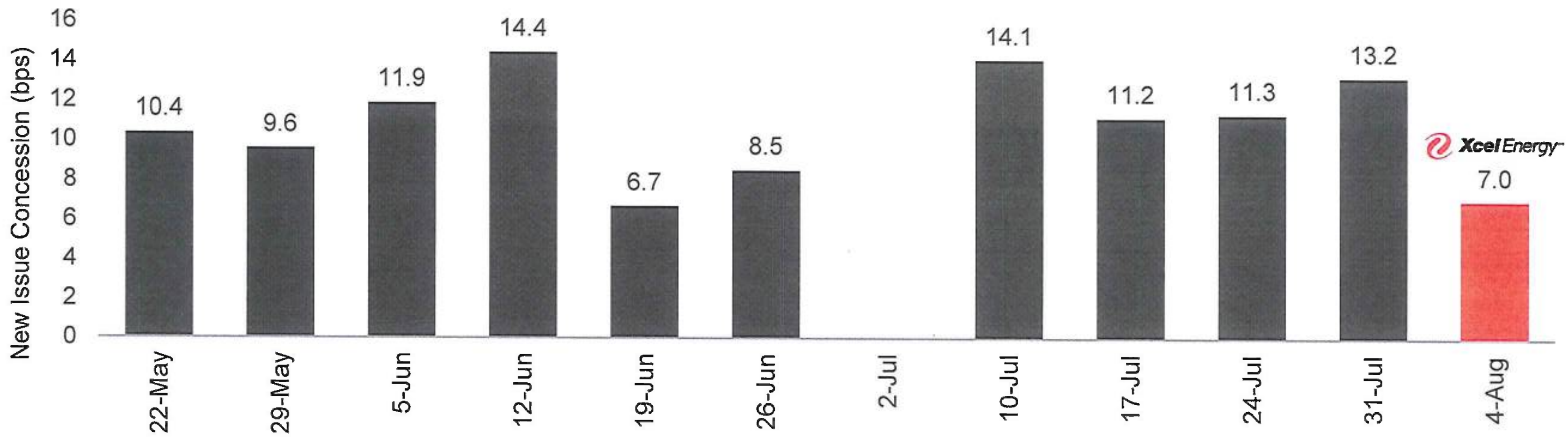
TRANSACTIONS PRICED ON THE SAME DAY

NSP-MN had the largest orderbook oversubscription and lowest new issue concession of all the transactions that priced on 8/4/15

Issue Date	Issuer	Moody's	S&P	Amount (mm)	Coupon	Maturity	Issue Spread	New Issue Concession (bps)	Total Book Size (mm)
04-Aug-15	Northern States Power Company of Minnesota	Aa3	A	$300	2.200%	15-Aug-20	+65	n/a	2,100 (3.5x)
04-Aug-15	Northern States Power Company of Minnesota	Aa3	A	$300	4.000%	15-Aug-45	+120	+7	
04-Aug-15	3M Co.	Aa3	AA-	$450	1.375%	07-Aug-18	+38	+13	3,600 (2.4x)
04-Aug-15	3M Co.	Aa3	AA-	$500	2.000%	07-Aug-20	+52	+12	
04-Aug-15	3M Co.	Aa3	AA-	$550	3.000%	07-Aug-25	+82	+12	
04-Aug-15	Colgate-Palmolive Company	Aa3	AA-	$600	4.000%	15-Aug-45	+110	+10	1,200 (2.0x)
04-Aug-15	HSBC USA, Inc.	A2	A	$250	3mL+77	07-Aug-18	+77	+12	4,300 (1.6x)
04-Aug-15	HSBC USA, Inc.	A2	A	$850	2.000%	07-Aug-18	+100	+12	
04-Aug-15	HSBC USA, Inc.	A2	A	$1,600	2.750%	07-Aug-20	+117	+11	
04-Aug-15	Philip Morris International Inc.	A2	A	$500	1.250%	11-Aug-17	+65	+7	3,100 (2.5x)
04-Aug-15	Philip Morris International Inc.	A2	A	$750	3.375%	11-Aug-25	+128	+14	

WEEKLY AVERAGE NEW ISSUE CONCESSIONS

NSP-MN priced with a +7 bps new issue concession, well inside of average new issue concessions on transactions priced over the past month



Recent Utility Deals

Date	Issuer	Ratings	Secured ?	Size ($mn)	Coupon (%)	Tenor (yrs)	Spread (bps)	NIC (bps)
10/07/15	Electricite De France Sa	A1/A+	N	1,500	2.350	5	115	15
10/07/15	Electricite De France Sa	A1/A+	N	1,250	3.625	10	165	25
10/07/15	Electricite De France Sa	A1/A+	N	500	4.750	20	200	40
10/07/15	Electricite De France Sa	A1/A+	N	1,150	4.950	30	205	30
10/07/15	Electricite De France Sa	A1/A+	N	350	5.250	40	245	40
10/05/15	Midamerican Energy Co (Tap)	Aa2/A	Y	200	3.500	10	100	5
10/05/15	Midamerican Energy Co	Aa2/A	Y	450	4.250	31	135	5
09/28/15	PPL Electric Utilities	A1/A	Y	350	4.150	30	132	flat
09/28/15	Peco Energy Co	Aa3/A-	Y	350	3.150	10	110	5
09/21/15	Dominion Resources Inc	Baa2/BBB+	N	650	3.900	10	170	3
09/21/15	Kentucky Utilities Co	A1/A	Y	250	3.300	10	110	2
09/21/15	Kentucky Utilities Co	A1/A	Y	250	4.375	30	135	2
09/21/15	Louisville Gas & Elec	A1/A	Y	300	3.300	10	110	2
09/21/15	Louisville Gas & Elec	A1/A	Y	250	4.375	30	135	2
09/15/15	Aep Texas Central Co	Baa1/BBB	N	250	3.850	10	170	0
09/09/15	Southwestern Public Service (Tap)	A2/A	Y	200	3.300	9	105	-5
09/09/15	Piedmont Natural Gas Co	A2/A	N	150	3.600	10	138	n/a
09/08/15	Indianapolis Pwr & Light	A2/BBB+	Y	260	4.700	30	175	n/a
08/13/15	Kansas City Power & Lt	Baa1/-	N	350	3.650	10	150	7
08/11/15	Jersey Central Power & Light	Baa2/BBB-	N	250	4.300	10	220	26
08/10/15	Duke Energy Progress Inc	Aa2/A	Y	500	3.250	10	105	-3
08/10/15	Duke Energy Progress Inc	Aa2/A	Y	700	4.200	30	130	4
08/06/15	Public Service Co Of New	Baa2/BBB	N	250	3.850	10	165	n/a
08/04/15	Northern States Pwr-Minn	Aa3/A	Y	300	2.200	5	65	0
08/04/15	Northern States Pwr-Minn	Aa3/A	Y	300	4.000	30	120	5
07/14/15	Korea Gas Corp	Aa3/A+	N	500	3.500	10	110	8
07/09/15	Aes Gener Sa	Baa3/BBB-	N	425	5.000	10	275	10
06/25/15	Entergy Corp	Baa3/BBB-	N	650	4.000	7	190	2
06/22/15	National Fuel Gas Co	Baa2/BBB	N	450	5.200	10	288	n/a
06/16/15	Pacificorp	A1/A	Y	250	3.350	10	105	10
06/15/15	Southern Calif Gas Co	Aa2/A+	Y	250	1.550	3	45	0
06/15/15	Southern Calif Gas Co	Aa2/A+	Y	350	3.200	10	87	2
06/15/15	Orange & Rockland Utility	A3/A-	N	120	4.950	30	188	0
06/09/15	Comision Federal De Elec	Baa1/BBB+	N	700	6.125	30	300	25
06/09/15	Southern Co	Baa1/A-	N	600	2.750	5	105	15
06/09/15	Dominion Resources Inc	Baa2/BBB+	N	500	1.900	3	82	4
06/09/15	Pacific Gas & Electric	A3/BBB	N	400	3.500	10	115	11
06/09/15	Pacific Gas & Electric (Tap)	A3/BBB	N	100	4.300	30	130	2
06/09/15	Dte Energy Company	A3/BBB	N	300	3.300	7	115	8
06/08/15	Exelon Corp	Baa2/BBB	N	550	1.550	2	90	5
06/08/15	Exelon Corp	Baa2/BBB	N	900	2.850	5	115	5
06/08/15	Exelon Corp	Baa2/BBB	N	1,250	3.950	10	160	5
06/08/15	Exelon Corp	Baa2/BBB	N	500	4.950	20	185	5
06/08/15	Exelon Corp	Baa2/BBB	N	1,000	5.100	30	200	5
	Total Utility Deal 6/08/15 - 10/07/15			21,105				

CERTIFICATE OF SERVICE

I, Jim Erickson, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

DOCKET NO. E,G002/S-15-948

Dated this 26th day of January 2016

/s/

Jim Erickson

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